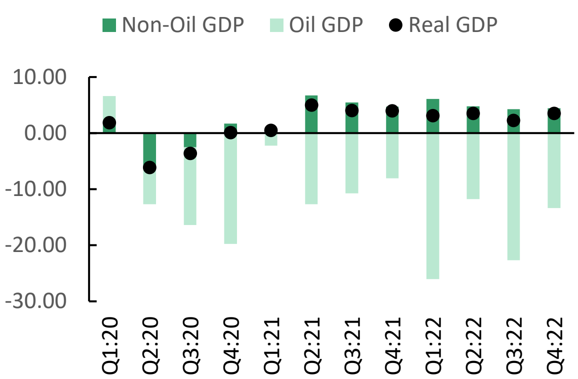
Macroeconomic Update

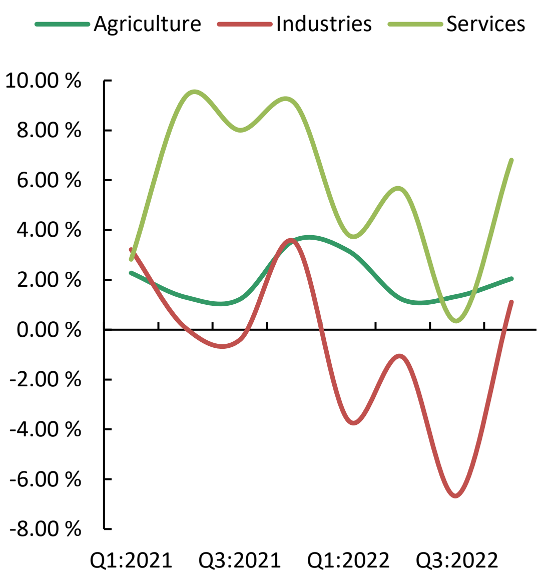
GDP | Q4:2022

Chart 1: Real GDP Growth Rate (% YoY)



Source: NBS, Meristem Research

Chart 2: Growth Rate of Major Sectors (% YoY)



Source: NBS, Meristem Research

According to the National Bureau of Statistics, Gross Domestic Product (GDP) grew at a slower rate by 3.10% YoY for 2022FY (vs. 3.40% as of 2021FY). This came in 0.59% higher than our forecast of 2.51% YoY due to a higher than anticipated performance of the Manufacturing, Information and Communication, and the Agriculture sectors. Total real GDP for the year stood at NGN74.64trn (vs. NGN72.39trn in 2021), bolstered by the non-oil sector which expanded by 4.84% YoY (vs. 4.44% YoY in 2021). Conversely, the oil sector contracted by 19.22% YoY (vs. -8.30% YoY in 2021) owing to lower production volumes (an average of 1.37mbpd in 2022 vs. an average of 1.60mbpd in 2021). The key growth drivers include the agriculture (+1.88% YoY), Information and Communication (+9.76% YoY), Trade (+5.13% YoY), and Financial Services (+16.36% YoY) sectors.

Oil Production Remains Subdued

All through 2022, crude oil production volumes (average of 1.37mbpd) remained significantly below 2021 output (average of 1.60mbpd), with Q3:2022, recording the least at 1.20mbpd. The lower production volumes can be mainly linked to production losses resulting from shut ins at the Forcados, Brass, and Trans Niger terminals. Oil production for Q4:2022 however increased to 1.34mbpd mainly driven by the reopening of the Forcados terminal, the Federal Government's collaboration with security agencies to curb pipeline sabotage and the integration of technology (such as the construction of a surveillance architecture to monitor pipelines). The cumulative performance however still lagged OPEC's production quota of 1.76mbpd and gains from higher crude oil prices were lost on the oil sector (average of USD99.04pb vs. USD70.91pb in 2021). Consequently, the oil sector remained in contraction, improving slightly in Q4:2022 (-13.38% YoY vs. -22.67% YoY in Q3:2022). On a positive side, we note an improvement in the country's rig count to 10 (vs. 7 in 2021) indicating increased field activities propelled by higher demand for crude oil globally as well as increased investments in upstream exploration.

We anticipate increased oil production in 2023 hinged on intensified efforts by the Federal Government to combat the aforementioned challenges plaguing the sector and reopening of the Forcados terminal. In addition, Dangote Refinery which is expected to become operational in Q2:2023 poses an upside to the growth expectation for the oil sector. Thus, we estimate an average oil production of 1.50mbpd for 2023 (9.49% higher than the average oil production for 2022). Also, while we anticipate OPEC's supply cut to be muted in 2023, Russia's planned oil supply cut by 500,000bpd as well as the reopening of the Chinese economy are expected to keep oil prices elevated thereby supporting Nigeria's oil revenue.

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Financial Service Sector Records Highest growth in a Decade

The non-oil sector remains the major driver of economic growth, expanding by 4.84% YoY in 2022 (vs. 4.44% YoY and -1.25% YoY in 2021 and 2020, respectively). The major catalysts to this growth were the Information and Communication (9.76% YoY), Trade (5.13% YoY) Financial services (16.36% YoY) and Agriculture (1.88% YoY) sectors. Growth in the ICT sector was driven by increased mobile subscriber base (+14.21% YoY) due to the recovery of lost subscribers (between 2020 and 2021) from the NIN-SIM data linkage exercised mandated by the Nigeria Communications Commission. Consequently, higher voice and data traffic bolstered the average revenue per user of the players in the industry. The expansion of 4G network coverage as well as 5G network roll out in some states are expected to result in increased data traffic. Additionally, higher fintech transactions volumes due to increased commercialization of fintech services as well as CBN's cashless policy are expected to support the ICT sector in 2023.

Furthermore, the agriculture sector recorded a slower growth of 2.05% YoY in Q4:2022 (vs. 3.58% YoY in Q4:2021) owing to the post-harvest losses resulting from the flooding. Cumulatively, the sector grew by 1.88% YoY in 2022 (vs. 2.13% YoY in 2021). We expect the sector's growth to remain slow in 2023 owing to continued insecurity challenges affecting the food producing areas and persisting issues in the agricultural value chain.

Surprisingly, despite the anticipated effect of higher monetary policy rate on the manufacturing sector's growth, the sector showed resilience, bouncing back to positive growth in Q4:2022 (2.83% YoY vs -1.91% YoY in Q3:2022). We however can beam the spotlight on the Food, Beverage and Tobacco subsector which grew by 4.94% YoY (vs. -4.05% YoY in Q3:2022y due to the festivities-related demand. Overall, the manufacturing sector grew at a slower pace in 2022 (2.45% YoY vs. 3.35% YoY in 2021). For 2023, we expect higher borrowing costs, FX-related challenges, as well as the cash crunch relating to the Naira redesign policy to pose downside risks to the growth of the sector.

Lastly on the services sector, we highlight that the financial service and trade sectors contributed significantly to the overall GDP growth witnessed in 2022. On the back of higher interest income, increased insurance inclusion, as well as improved insuretech partnerships, the Financial Services sector GDP expanded by 16.36% YoY in 2022 (vs. 10.07% YoY in 2021), representing its highest growth rate since 2013. We expect higher lending rate and moderate expansion in loan books, higher rate of financial inclusion, as well as increased insurance penetration to drive the sector in 2023. However, damages of banking infrastructure resulting from the crisis related to the cash-crunch could result to higher insurance claims thereby posing downside risks to the sector's growth. We also expect the cash crisis to have a significant impact on the informal trade sector being majorly a cash settled market.

Overall, as stated above, we expect an improvement in the oil sector due to the government's efforts mentioned above. On the other hand, while we expect that the non-oil sector should continue its expansion path, we posit that the expected slowdown in manufacturing and services sector growth will slow down overall output in the non-oil sector. Hence, we revise our prior estimates for GDP growth in 2023 to 2.70% YoY.

MERISTEM

Contact Information

Investment Research

(+234 816 890 2771)
damilareojo@meristemng.com
praiseihansekhien@meristemng.com (+234 817 007 1512)
research@meristemng.com

Corporate websites: www.meristemng.comwww.meristemwealth.comwww.meristemregistrars.com

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